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**XIAN YUEN TITANIUM RESOURCES HOLDINGS LIMITED**  
**森源鈦礦控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 353)**

**ANNOUNCEMENT MADE PURSUANT TO  
RULE 13.09 OF THE LISTING RULES  
PROFIT WARNING  
AND  
RESUMPTION OF TRADING**

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

During the preparation of the interim results of the Group for the six months ended 30 June 2010, the Board, to its astonishment, found out that the exploration licence held by the Qinghai Subsidiary, an indirect wholly-owned subsidiary of the Company, had been transferred to a company known as 內蒙古小紅山源森礦業有限公司 (in English, for identification purpose only, Inner Mongolia Xian Hong Shan Yuen Xian Mining Industry Company Limited) without the Company's knowledge, consent or approval.

The Board announces that the unaudited interim results of the Group for the six months ended 30 June 2010 are expected to decline as compared with those for the six months ended 30 June 2009. The loss is mainly derived from the loss on deconsolidation of subsidiaries.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 19 August 2010 pending the release of this announcement which contains price sensitive information. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 27 August 2010.

The board ("**Board**") of directors ("**Directors**") of Xian Yuen Titanium Resources Holdings Limited ("**Company**", together with its subsidiaries, "**Group**") wishes to make this announcement pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

\* *For identification purpose only*

## LOSS OF ASSETS

During the preparation of the interim results of the Group for the six months ended 30 June 2010, the Board, to its astonishment, found out that as from 31 January 2010 the exploration licence held by Qinghai Forest Source Mining Industry Developing Company Limited (“**Qinghai Subsidiary**”), an indirect wholly-owned subsidiary of the Company incorporated in the People’s Republic of China (“**PRC**”), had been transferred to a company known as 內蒙古小紅山源森礦業有限公司 (in English, for identification purpose only, Inner Mongolia Xian Hong Shan Yuen Xian Mining Industry Company Limited) (“**Yuen Xian Company**”) without the Company’s knowledge, consent or approval.

Based on the searches conducted by the Company’s legal advisers, the Company further found out that:

1. Yuen Xian Company is a wholly foreign owned enterprise established in the PRC on 21 October 2009 and is wholly-owned by a company known as “Yuenxian Mining Industry Holdings Company Limited” (“**HK Yuenxian**”). Ms. Margaret Lai Ching LEUNG (“**Ms. Leung**”) is one of the directors and the legal representative of Yuen Xian Company.
2. HK Yuenxian (previously known as Forest Source Mining Industry Holding Company Limited) is a company incorporated in Hong Kong and is wholly-owned by Ms. Leung. Ms. Leung is also the sole director of HK Yuenxian.

### Dispute with Ms. Leung

In November 2009, a legal proceeding was commenced by Hong Kong Forest Source Mining Industry Holding Company Limited (“**Hong Kong Subsidiary**”), the Qinghai Subsidiary and Inner Mongolia Forest Source Mining Industry Developing Company Limited (“**Inner Mongolia Subsidiary**”), three wholly-owned subsidiaries of the Company, against HK Yuenxian which was then known as Forest Source Mining Holding Industry Holding Company Limited, Ms. Leung and such other persons named as co-defendants to such legal proceeding. The Company has sought and obtained, among other things, an interim injunction order from the Hong Kong Court in the following terms:

- (a) an injunction restraining, amongst others, HK Yuenxian and Ms. Leung from carrying on business in Hong Kong and/or the PRC under the name “Forest Source Mining Industry Holding Company Limited; and
- (b) an injunction restraining, amongst others, Ms. Leung from acting or holding out as a director of the Qinghai Subsidiary or interfering with the business the Qinghai Subsidiary, including but not limited to making any representations, requests, demands or promises to the Inner Mongolia Autonomous Region Commerce and Industry Bureau or any other governmental agencies in the PRC on behalf of the Qinghai Subsidiary in regard to any affairs of or relating to the Qinghai Subsidiary.

The interim injunction order was discharged on 30 March 2010.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the company name “Forest Source Mining Industry Holding Company Limited” was changed to “Yuenxian Mining Industry Holding Company Limited” on 7 January 2010.

## **Control of the PRC subsidiaries**

Ms. Leung was a director and legal representative of the Qinghai Subsidiary and the Inner Subsidiary. On 10 September 2009, the board of directors of the sole shareholder of the Qinghai Subsidiary and the Inner Mongolia Subsidiary (namely, the Hong Kong Subsidiary) had resolved to remove Ms. Leung as director and legal representative of the Qinghai Subsidiary and the Inner Mongolia Subsidiary with immediate effect. As disclosed in the Company's circular dated 28 June 2010, the respective members of the board of directors and legal representatives of the Qinghai Subsidiary and the Inner Mongolia Subsidiary have yet to be officially changed as the procedure for changing and updating the official records at the relevant PRC government authority is taking longer than expected as Ms. Leung, being the previous legal representative, was not cooperative and failed to provide the requested documents and corporate seals. Based on the advice of the Company's legal adviser as to PRC laws, the Directors were of the view that the Company had maintained control on the Qinghai Subsidiary and the Inner Mongolia Subsidiary despite the fact that the respective members of the board of directors and legal representatives of the Qinghai Subsidiary and the Inner Mongolia Subsidiary have yet to be officially changed, although the directors and legal representatives were removed on 10 September 2009.

## **Exploration licence**

The Company acquired the Qinghai Subsidiary from Ms. Leung. The Qinghai Subsidiary was the holder of an exploration licence which conferred the Qinghai Subsidiary the right to conduct exploration work for the mineral resources containing iron, vanadium and titanium in the titanium mine located at Xiao Hong Shan in Inner Mongolia, the PRC. Based on the search recently conducted by the Company's legal adviser, the exploration licence was transferred to Yuen Xian Company on 31 January 2010. Such action by Ms. Leung was totally unexpected in view of the interim injunction order obtained by the Company from the Hong Kong Court as referred to in the sub-paragraph headed "Dispute with Ms. Leung" above. Without the exploration licence, the Qinghai Subsidiary will no longer have the right to, among other things, carry out exploration of the mineral resources of the titanium mine, access the titanium mine and neighbouring areas and have the priority in obtaining the mining rights of the titanium mine.

## **Financial effect on the Group**

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the loss of the exploration licence will affect the Group's financial conditions. There will be a deconsolidation of goodwill, assets, liabilities and exchange reserve in the financial statements of the Qinghai Subsidiary and the Inner Mongolia Subsidiary which will result in a substantial loss in the Group. Despite the above financial impact on the Group, the Directors are of the opinion that the Group will have sufficient working capital to carry out its businesses.

## **Deconsolidation of subsidiaries**

As soon as the Company discovered the loss of the Qinghai Subsidiary's exploration licence, the Company has sought a preliminary advice from its legal counsel. Based on the information provided by the Company, the legal counsel opined that given the discovery of the loss of asset of the Qinghai Subsidiary, the Board is no longer in the position to maintain that the Company retains control of the Qinghai Subsidiary and the Inner Mongolia Subsidiary. Due to the above reasons, the Directors considered that the Group was unable to exercise its rights as the sole shareholder either to control the assets and operations or to exercise control over the financial and operating policy decision of the Qinghai Subsidiary and the Inner Mongolia Subsidiary. As such, the Directors further considered that it is inappropriate to consolidate the financial results of the Qinghai Subsidiary and the Inner Mongolia Subsidiary into the Group and therefore, the two wholly-owned PRC subsidiaries will be deconsolidated during the six months ended 30 June 2010.

## **Further action**

The Group is principally engaged in (a) trading of a wide range of carpets; (b) the exploration and mining of natural resources; and (c) the operation of a combined heat and electricity generation plant. Due to the recent discovery of the loss of the exploration licence, it is the Board's current intention to suspend the Group's exploration and mining business until the Group regains control of the Qinghai Subsidiary and the exploration licence. The Company will continue to seek advice from its legal advisers and legal counsel as to what further action the Company shall take in respect of the loss of the Qinghai Subsidiary's exploration licence and the procedure for regaining the exploration licence. Further announcement(s) will be issued by the Company as and when necessary to comply with the requirements of the Listing Rules.

## **PROFIT WARNING**

The Board announces that the unaudited interim results of the Group for the six months ended 30 June 2010 are expected to decline as compared with those for the six months ended 30 June 2009. The loss is mainly derived from loss on deconsolidation of subsidiaries.

The Company is still in the process of finalising the Group's unaudited interim results for the six months ended 30 June 2010. The information contained in this announcement is only based on a preliminary assessment by the management of the Company and is not based on any figures or information that has been audited or reviewed by the Company's auditors. Details of the financial information and performance of the Group will be disclosed as and when the unaudited interim results for the six months ended 30 June 2010 are announced.

## **PRICE SENSITIVE INFORMATION**

Apart from the information disclosed in this announcement, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Directors are not aware of any other price sensitive information relating to the Group which the Company is required to disclose to its shareholders pursuant to the Listing Rules.

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 19 August 2010 pending the release of this announcement which contains price sensitive information. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 27 August 2010.

By order of the board  
**Xian Yuen Titanium Resources Holdings Limited**  
**Law Fei Shing**  
*Chief Executive Officer and Executive Director*

Hong Kong, 26 August 2010

*As at the date of this announcement, the executive Directors are Mr. Law Fei Shing (chief executive officer), Mr. Chan Sung Wai, Mr. Chan Kwok Wing, Mr. Zhao Guoqiang and Mr. Wang Donghai; the non-executive Director is Mr. Zhang Zhenming and the independent non-executive Directors are Mr. Lum Pak Sum, Mr. Sun Tak Keung and Mr. Chow Pui Fung.*